

P.I.E. Industrial

2Q Miss on Temporary Wallet Share Loss; Outlook Rests on New Orders

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PIE's 2QFY25 revenue of RM231m (-15% YoY, -4% QoQ) brought 1HFY25 revenue to RM503m, falling short of our expectations, accounting for only 42% of our forecast and 36% of consensus. In a briefing, management attributed the underperformance to reduced orders on the EMS segment as Customer A had pre-emptively relocated part of its production to Indonesia in anticipation of tariff changes (both countries now face similar tariff levels of 19%). The loss of wallet share from Customer A to Indonesia in 2Q25 is expected to normalize in future orders with no loss of competitiveness in tariffs, although adjusting for the Customer A volume slippage in 2Q25 as well as customer tariff-sharing arrangements, this still results in a 21/16% earnings cut for FY25/26. We reduce our FY26 target price to RM3.85 (from RM4.60). Our unchanged MP call hasn't given benefit to sizeable revenue uplift from potential customers for Plant 6 (see forecast section for sensitivity).

We attended PIE post-2QFY25 results briefing with the following key takeaways.

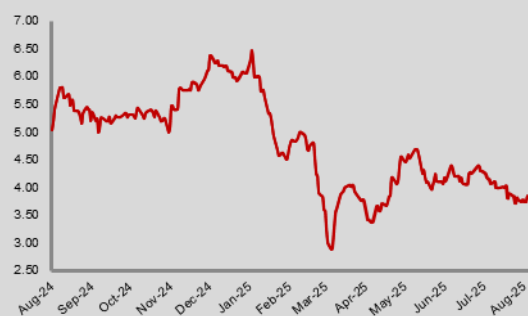
- Customer A's shift hits near-term revenue.** PIE's weak 2QFY25 performance was largely attributable to a 23% QoQ drop in orders from Customer A to RM78m (from RM102m in 1Q), as the customer pre-emptively diversified production to Indonesia in anticipation of potential tariff adjustments, without which 1HFY25 revenues would have been broadly in line and net profit at ~38% of our full-year forecast (vs. 31% currently), near the typical 40% in the first half. Management shared that prior to tariffs, Malaysia, Indonesia, and Thailand each accounted for roughly one-third of Customer A's volume, and expected this split to hold in the near term. However, volumes already reallocated are difficult to recover due to entrenched material and resource commitments. Notably, the group is eyeing an upcoming order cycle potentially in 4QFY25 and aims to capture around one-third of the expected allocation. We believe the company can regain lost market share in upcoming orders, given no discernible tariff difference among countries. Additionally, while Customer A plans to establish a US manufacturing [facility](#), management sees the higher cost as commercially unviable and expects continued reliance on Asian vendors for assembly.
- Tariff impact likely to compress margins.** Management indicated that some customers prefer a cost-sharing arrangement on the tariffs with manufacturing partners. Customers in turn could allow ASP adjustments though not fully offset and thus still impinging on margins. As such, management is guiding for PAT margins of ~5% (vs. 5-year average of 6%), reflecting the anticipated drag from tariff-related costs. We note that this is likely not unique to PIE, as similar pressures could weigh on margins across the EMS sector given the shared exposure to the current trade environment.
- Outlook.** The finalisation of tariffs has enhanced clarity, enabling the group to resume business discussions, and actively pursue new opportunities, particularly with 10 potential customers pursuing the China+1 and Vietnam+1 diversification strategy. Several of these engagements are showing good progress. We believe the trade diversion narrative has regained momentum, and pricing parity is expected to drive both new orders and the resumption of delayed orders. While management acknowledged that Plant 5 and the newly-commissioned Plant 6 are operating at suboptimal utilization rates, the current excess capacity positions PIE to capture incremental

MARKET PERFORM ↔

Price : RM3.73

Target Price : RM3.85 ↓

Share Price Performance



KLCI	1,563.24
YTD KLCI chg	-4.3%
YTD stock price chg	-38.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PIE MK EQUITY
Market Cap (RM m)	1,479
Shares Outstanding	384.0
52-week range (H)	6.45
52-week range (L)	2.73
3-mth avg. daily vol.	317,754
Free Float	28%
Beta	1.13

Major Shareholders

Pan Global Holding Co Ltd	51.4%
AmanahRaya Trustees	6.2%
Fing Wong Nyok	6.1%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	975	1,039	1,371
EBIT	62	68.1	86.4
PBT	58	65.5	83.0
Net Profit	53	54.0	68.5
Consensus	-	70.3	90.5
Earnings Revision	-	-21%	-16%
EPS (sen)	13.8	14.1	28.6
EPS Growth (%)	-27.8	1.93	11.9
NDPS (sen)	0	0	0
BV/Share (RM)	1.7	1.9	2.0
Core PER (x)	33.2	26.7	13.1
P/BV (x)	2.8	2.4	2.1
Gearing (x)	-0.1	-0.1	-0.2
Net Dvd Yield (%)	0.0%	0.0%	0.0%

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demand as it materialises. Our forecasts currently exclude potential contributions from prospective new customers. While earlier discussions were delayed by tariff uncertainty, we see scope for progress as talks resume, with success contingent on reaching consensus on tariff cost sharing. Gaining more wallet share from Customer A and winning new clients are key upside catalysts.

Forecasts. We have revised down our FY25F/FY26F net profit forecasts by 21%/16%, respectively, reflecting lower net margin assumptions of 5.6%/5% in respective years (from 5.6% previously), alongside a 14%/6% cut in revenue forecasts, as we factor in a reduced contribution from Customer A as well as margin dilution stemming from tariff cost-sharing arrangements with customers. Importantly, our current forecasts have yet to factor in any potential contributions from new customer wins under discussion. Management previously guided that securing just two customers out of the 10 ongoing discussions would be sufficient to fully utilise the available space. Simplistically, given that Plants 1, 2, 3, and 5 can generate ~RM1.2b from 460K sq ft (RM2,600/sq ft annually), securing just one customer for Plant 6 could add—all else equal—c.RM364m in revenue, a +35% revenue upside. Hence, success in securing additional wallet share from Customer A, coupled with potential new customer wins, would serve as key upside catalysts to our earnings outlook.

Valuations. We lower our target price to RM3.85 (from RM4.60 previously), based on a rolled-forward FY26F valuation base and an unchanged PER of 21.6x – implying a 10% discount to AI server-related peers such as **NATGATE (OP; TP: RM2.21)**. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment case. We like PIE for: (i) its comprehensive skill set, making it a top-choice EMS provider for MNCs, (ii) various competitive advantages it enjoys as a unit of Foxconn, and (iii) its diversified and evolving client base, from those involved in communication devices and power tools to the latest DeFi equipment.

Risks to our call include: (i) loss of orders or non-renewal of contracts by its key customer, (ii) labour shortage and rising labour cost, (iii) unfavourable shifts in US trade policy, and (iv) adverse currency movements.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F	FY Dec	2022A	2023A	2024A	2025F	2026F
Revenue	1,165	1,217	975	1,039	1,371	Growth (%)					
EBITDA	108	115	85	99	118	Turnover	13.7	4.4	-19.8	6.5	32.0
Dep & Amort.	24	22	23	31	32	EBITDA	15.7	7.0	-26.1	16.3	19.8
Operating Profit	83	93	62	68	86	Operating Profit	11.9	11.0	-33.1	9.9	26.9
Other Income	17	35	10	13	21	PBT	-40.6	9.6	-35.7	13.1	26.7
Interest Exp	-1	-3	-4	-3	-3	Adj. Net Profit	16.1	5.8	-28.3	1.7	26.9
PBT	82	90	58	65	83	Profitability (%)					
Taxation	-12	-16	-6	-13	-17	EBITDA Margin	9.2	9.5	8.7	9.5	8.6
MI	0	0	1	2	2	Operating Margin	7.2	7.6	6.4	6.6	6.3
Net Profit	70	74	53	54	69	PBT Margin	7.0	7.4	5.9	6.3	6.1
Core Net Profit	70	74	53	54	69	Core Net Margin	6.0	6.1	5.4	5.2	5.0
Balance Sheet						Effective Tax Rate	-14.7	-17.7	-9.9	-20.2	-20.0
FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F	ROA	7.7	8.2	6.2	5.1	5.2
Fixed Assets	186	209	278	302	352	ROE	12.5	12.2	8.1	7.6	8.8
Int. Assets	-	-	-	-	-	DuPont Analysis					
Other FA	26	25	22	22	22	Net Margin	6.0%	6.1%	5.4%	5.2%	5.0%
Inventories	288	278	213	228	303	Assets T/O (x)	1.3x	1.3x	1.1x	1.0x	1.0x
Receivables	336	331	216	230	303	Lvg. Factor (x)	1.6x	1.5x	1.3x	1.5x	1.7x
Other CA	9	4	14	15	16	ROE	12.5	12.2	8.1	7.6	8.8
Cash	63	63	116	251	321	Leverage					
Total Assets	907	909	858	1049	1318	Debt/Asset (x)	0.1	0.1	0.1	0.1	0.0
Payables	228	220	135	144	192	Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1
ST Borrowings	-	-	-	-	-	Net Cash/(Debt)	-42	-5	59	195	264
Other ST Liability	108	69	61	66	69	Net Debt/Equity (x)	0.1	0.0	-0.1	-0.3	-0.3
LT Borrowings	-	-	-	-	-	Valuations					
Other LT Liability	11	11	3	127	279	Core EPS (sen)	18.2	19.2	13.8	14.1	17.8
Minorities Int.	-	-	24	23	20	DPS (sen)	0.0	0.0	0.0	0.0	0.0
Net Assets	560	609	635	689	758	BVPS (RM)	1.46	1.59	1.65	1.79	1.97
Share Capital	83	83	83	83	83	PER (x)	23.4	22.2	30.8	30.3	23.9
Reserves	477	526	552	606	675	Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Equity	560	609	635	689	758						

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FY Dec (RM m)	2022A	2023A	2024A	2025F	2026F	P/BV (x)	2.9	2.7	2.6	2.4	2.2
Operating CF	30	117	159	191	152	EV/EBITDA (x)	14.8	14.2	20.0	18.5	16.1
Investing CF	-46	-45	-91	-55	-82						
Financing CF	-1	-68	-13	0	0						

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Malaysian Technology Peers Comparison

Name	Rating	Last Price @ 29 May (RM)	Target Price (RM)	Upside	Mkt Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) – Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net. Div. Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
D&O GREEN TECHNOLOGIES BHD	MP	1.03	1.18	14.6%	1,277	Y	12/2025	4.0	5.3	24.8%	34.3%	25.9	19.3	1.3	5.3%	1.0	1.0%
INARI AMERTRON BHD	MP	1.89	2.00	5.8%	7,161	Y	06/2025	6.8	7.6	-17.2%	11.8%	27.9	25.0	2.6	6.1%	6.0	3.2%
KELINGTON GROUP BHD	OP	4.39	4.33	-1.4%	3,323	Y	12/2025	20.4	19.5	25.2%	13.6%	21.6	22.6	4.9	26.7%	11.0	2.5%
LGMS BHD	MP	0.79	1.00	26.6%	360	Y	12/2025	2.9	3.3	7.3%	15.2%	27.3	23.7	3.6	13.5%	2.0	2.5%
MALAYSIAN PACIFIC INDUSTRIES	MP	21.56	18.40	-14.7%	4,299	Y	06/2025	72.8	80.1	15.0%	10.0%	29.6	26.9	2.0	6.8%	35.0	1.6%
NATIONGATE HOLDINGS BHD	OP	1.39	2.21	59.0%	3,165	Y	12/2025	9.2	9.4	19.5%	2.3%	15.1	14.7	2.9	21.1%	2.0	1.4%
OPPSTAR BHD	MP	0.49	0.50	2.0%	314	Y	03/2025	1.4	1.7	-27.4%	21.1%	34.9	28.8	2.2	6.5%	1.0	2.0%
PIE INDUSTRIAL BHD	MP	3.73	3.85	3.2%	1,432	Y	12/2025	14.1	17.8	1.7%	26.9%	26.5	20.9	2.1	8.2%	0.0	0.0%
SKP RESOURCES BHD	OP	0.92	1.24	34.8%	1,437	Y	03/2025	8.6	9.2	13.9%	6.3%	10.6	10.0	1.2	12.0%	0.0	0.0%
UNISEM (M) BHD	UP	2.39	1.23	-48.5%	3,855	Y	12/2025	3.8	5.3	2.0%	38.8%	62.3	44.9	1.8	2.8%	8.0	3.3%
SECTOR AGGREGATE					26,625					8.2%	12.7%	24.5	21.7	2.5	10.9%		1.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	☆	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	☆		
	Corruption-Free Pledge	★	★	★	★	
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Worker Welfare	★	★	★		
	Supply Chain Auditing	★	★	★	☆	
	Waste Management	★	★	★		
	Energy Efficiency	★	★	★	☆	
	Work Site Safety	★	★	★		
	Digital Transformation	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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